

***Finance, 5e (Cornett)***

**Chapter 1 Introduction to Financial Management**

1) Which statements(s) is/are true for successful application of financial theories?

- A) The economy will be more productive.
- B) Individual's wealth will grow.
- C) A and B are true.
- D) None of the above.

Answer: C

Difficulty: 1 Easy

Topic: Financial theories

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

2) Not all cash a company generates will be returned to the investors. Which of the following will *NOT* reduce the amount of capital returned to the investors?

- A) retained earnings
- B) taxes
- C) dividends

Answer: C

Difficulty: 1 Easy

Topic: Dividends and pay out policy

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

3) This subarea of finance involves methods and techniques to make appropriate decisions about what kinds of securities to own, which firms' securities to buy, and how to be paid back in the form that the investor wishes.

- A) real markets
- B) investments
- C) financial management

Answer: B

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

4) This subarea of finance looks at firm decisions in acquiring and utilizing cash received from investors or from retained earnings.

- A) investments
- B) financial management
- C) financial institutions and markets

Answer: B

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

5) Financial management involves decisions about which of the following?

- A) which projects to fund
- B) how to minimize taxation
- C) what type of capital should be raised
- D) all of these choices are correct.

Answer: D

Difficulty: 1 Easy

Topic: Financial management decisions

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

6) This subarea of finance helps facilitate the capital flows between investors and companies.

- A) investments
- B) financial management
- C) treasury management
- D) financial institutions and markets

Answer: D

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

7) This subarea of finance is important for adapting to the global economy.

- A) investments
- B) financial management
- C) international finance
- D) financial institutions and markets

Answer: C

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

8) A potential future negative impact to value and/or cash flows is often discussed in terms of probability of loss and the expected magnitude of the loss. This is called

- A) options.
- B) standard deviation.
- C) coefficient of variation.
- D) risk.

Answer: D

Difficulty: 1 Easy

Topic: Risks and returns

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

9) This is a term to describe non-physical assets like stocks and bonds that get their value from future cash flows.

- A) investment
- B) financial asset
- C) real asset
- D) financial markets

Answer: B

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

10) Which of the following is defined as a group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations?

- A) investments
- B) asset classes
- C) market instruments
- D) financial markets

Answer: B

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

11) The most commonly accepted groups of asset classes include all of the following except

- A) stocks.
- B) bonds.
- C) machinery and equipment.
- D) real estate.

Answer: C

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

12) Which of the following is the firm's highest-level financial manager?

- A) chief executive officer
- B) chief financial officer
- C) board of directors
- D) corporate governance

Answer: B

Difficulty: 1 Easy

Topic: Management organization and roles

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-02 Show how finance is at the heart of sound business decisions.

13) Which of the following managers would *NOT* use finance?

- A) operational managers
- B) marketing managers
- C) human resource managers
- D) all of these choices are correct.

Answer: D

Difficulty: 1 Easy

Topic: Management organization and roles

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-02 Show how finance is at the heart of sound business decisions.

14) Which of the following personal decisions is *NOT* impacted by finance?

- A) borrowing money to purchase cars or homes
- B) making credit card payments
- C) making retirement decisions
- D) all of these choices are correct.

Answer: D

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-03 Learn the financial principles that govern your personal decisions.

15) When determining a form of business organization, all of the following are considered *EXCEPT*

- A) who owns the firm.
- B) the owners' risks.
- C) the tax ramifications.
- D) the physical location of the business.

Answer: D

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

16) This type of business organization is relatively easy to start, and it is subject to much lighter regulatory and paperwork burden than other business forms.

- A) sole proprietorship
- B) partnership
- C) corporation
- D) hybrid organization

Answer: A

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

17) This type of business organization is entirely legally independent from its owners.

- A) sole proprietorship
- B) partnership
- C) public corporations
- D) hybrid organizations

Answer: C

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

18) Which of the following is *NOT* considered a hybrid organization?

- A) S corporation
- B) limited liability partnership
- C) limited liability company
- D) limited partnership
- E) all of these choices are correct.

Answer: E

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

19) The practice generally known as double taxation is due to

- A) shareholders' dividends being taxed at both the federal and state levels.
- B) corporate income being taxed at both the federal and state levels.
- C) interest on shareholders' dividends being taxed as income.
- D) corporate incomes being taxed at the corporate level, then again at the shareholder level when corporate profits are paid out as dividends.

Answer: D

Difficulty: 2 Medium

Topic: Forms of business organization

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

20) As individual legal entities, corporations assume liability for their own debts, so the shareholders hold

- A) only limited liability.
- B) unlimited liability.
- C) shared liability.
- D) joint liability.

Answer: A

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

21) In order for an angel investor or venture capitalist to exchange capital for ownership in a business that is a sole proprietorship, which of these must happen?

- A) The business must be re-formed as a partnership.
- B) The owner must give up some control.
- C) The owner must co sign on all loans.
- D) The business must be re-formed as a partnership and the owner must give up some control.

Answer: D

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

22) Which statement(s) should be considered to maximize owner's equity value?

- A) How best to bring additional funds into the firm.
- B) Which projects to invest in.
- C) How best to return the profits from those projects to the owners over time.
- D) All of the above.

Answer: D

Difficulty: 1 Easy

Topic: Goal of financial management

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-05 Distinguish among appropriate and inappropriate goals for financial managers.



23) For corporations, maximizing the value of owner's equity can also be stated as

- A) maximizing retained earnings.
- B) maximizing earnings per share.
- C) maximizing net income.
- D) maximizing the stock price.

Answer: D

Difficulty: 1 Easy

Topic: Goal of financial management

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-05 Distinguish among appropriate and inappropriate goals for financial managers.

24) A metaphor used to illustrate how an individual pursuing his own interests also tends to promote the good of the community.

- A) agency theory
- B) angel investor
- C) invisible hand
- D) perks or perquisites

Answer: C

Difficulty: 2 Medium

Topic: Goal of financial management

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-05 Distinguish among appropriate and inappropriate goals for financial managers.

25) This should be the primary objective of a firm as it may actually be the most beneficial for society in the long run.

- A) minimizing layoffs
- B) maximizing market share
- C) minimizing costs
- D) maximizing shareholder value

Answer: D

Difficulty: 2 Medium

Topic: Goal of financial management

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-05 Distinguish among appropriate and inappropriate goals for financial managers.

26) Nonwage compensation that might actually enhance owner value, in that such items may boost managers' productivity.

- A) agency theory
- B) angel investor
- C) invisible hand
- D) perks or perquisites

Answer: D

Difficulty: 1 Easy

Topic: Agency costs and problems

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

27) Which of these are *NOT* basic approaches to minimizing the agency problem?

- A) ignore the conflict of interest
- B) monitor managers' actions
- C) align managers' personal interest with those of the owners by making the managers owners
- D) all of these choices are correct.

Answer: D

Difficulty: 2 Medium

Topic: Agency costs and problems

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

28) Which of the following is an example of aligning managers' personal interests with those of the owners?

- A) allow the managers to have as many perks as they request
- B) pay the managers high salaries
- C) offer the managers an equity stake in the firm
- D) trust the managers' actions as they will always act in the owners' best interest

Answer: C

Difficulty: 2 Medium

Topic: Agency costs and problems

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

29) This is the set of laws, policies, incentives, and monitors designed to handle the issues arising from the separation of ownership and control.

- A) agency theory
- B) corporate governance
- C) defined benefit plan
- D) invisible hand

Answer: B

Difficulty: 1 Easy

Topic: Ethics, governance, and regulation

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

30) This group is elected by stockholders to oversee management in a corporation.

- A) chief counselors
- B) chief executives
- C) board of directors
- D) auditors

Answer: C

Difficulty: 1 Easy

Topic: Management organization and roles

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

31) These individuals examine the firm's accounting systems and comment on whether financial statements fairly represent the firm's financial position.

- A) accounting departments
- B) chief financial officers
- C) board of directors
- D) auditors

Answer: D

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

32) These individuals follow a firm, conduct their own evaluations of the company's business activities, and report to the investment community.

- A) auditors
- B) investment analysts
- C) investment bankers
- D) credit analysts

Answer: B

Difficulty: 2 Medium

Topic: Introduction to corporate finance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

33) These individuals help firms access capital markets and advise managers about how to interact with those capital markets.

- A) auditors
- B) investment analysts
- C) investment bankers
- D) credit analysts

Answer: C

Difficulty: 2 Medium

Topic: Introduction to corporate finance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

34) These individuals examine a firm's financial strength for its debt holders.

- A) auditors
- B) investment analysts
- C) investment bankers
- D) credit analysts

Answer: D

Difficulty: 2 Medium

Topic: Introduction to corporate finance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

35) Which of the following is a legal duty between two parties where one party must act in the interest of the other party?

- A) agency theory
- B) angel investor
- C) fiduciary
- D) investment banker

Answer: C

Difficulty: 2 Medium

Topic: Agency costs and problems

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-07 Discuss how ethical decision making is part of the study of financial management.

36) Which of the following can create ethical dilemmas between corporate managers and stockholders?

- A) agency relationship
- B) auditors
- C) boards of directors
- D) venture capitalist

Answer: A

Difficulty: 2 Medium

Topic: Agency costs and problems

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-07 Discuss how ethical decision making is part of the study of financial management.

37) Individuals who provide small amounts of capital and expert business advice to small firms in exchange for an ownership stake in the firm are referred to as

- A) institutional investors.
- B) corporate investors.
- C) angel investors.
- D) capital investors.

Answer: C

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

38) The opportunity to buy stock at a fixed price over a specific period of time is referred to as

- A) stock opportunities.
- B) stock options.
- C) real assets.
- D) restricted stock.

Answer: B

Difficulty: 1 Easy

Topic: Options

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

39) The portion of a company's profits that are kept by the company rather than distributed to the stockholders as cash dividends is referred to as

- A) restricted earnings.
- B) venture capital.
- C) retained earnings.
- D) institutional investment.

Answer: C

Difficulty: 1 Easy

Topic: Statement of retained earnings

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

- 40) An employee stock option plan is
- A) a perk usually only given to the board of directors as compensation.
  - B) a plan that only partnerships can use to defer compensation to partners.
  - C) a way to align the interests of employees with those of the owners.

Answer: C

Difficulty: 1 Easy

Topic: Employee stock options

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

- 41) Outside parties that monitor the firm include all of the following *EXCEPT*
- A) credit agencies.
  - B) the New York Stock Exchange.
  - C) analysts.
  - D) bankers.

Answer: B

Difficulty: 1 Easy

Topic: Agency costs and problems

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

- 42) Which of the following is *NOT* a function of the board of directors?
- A) hire the CEO
  - B) evaluate the CEO
  - C) design compensation contracts for the CEO
  - D) provide reports to the auditors

Answer: D

Difficulty: 1 Easy

Topic: Management organization and roles

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.



43) The overall goal of the financial manager is to

- A) minimize total costs.
- B) maximize net income.
- C) maximize earnings per share.
- D) maximize shareholder wealth.

Answer: D

Difficulty: 1 Easy

Topic: Goal of financial management

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

44) Maximizing owners' equity value means carefully considering all of the following *EXCEPT*

- A) how to best bring additional funds into the firm.
- B) which projects to invest in.
- C) how best to increase the firm's risk.
- D) how best to return the profits from those projects to the owners over time.

Answer: C

Difficulty: 1 Easy

Topic: Goal of financial management

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

45) The agency relationship in corporate finance occurs

- A) when the shareholders hire a manager to run their company.
- B) when the corporation hires an advertising agency to market their new product or service.
- C) when the board of directors are elected to staggered terms.
- D) when the board of directors oversee the CEO.

Answer: A

Difficulty: 1 Easy

Topic: Agency costs and problems

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

46) The most common type of business in the United States is the

- A) corporation.
- B) partnership.
- C) sole proprietorship.
- D) hybrid organization such as a limited liability company.

Answer: C

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

47) The biggest disadvantage of the sole proprietorship is

- A) unlimited liability.
- B) double taxation.
- C) limited access to capital.
- D) total control.

Answer: A

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

48) Which of the following statements is incorrect?

- A) Sole proprietorships are subject to less regulation.
- B) Both angel investors and venture capitalists exchange capital for ownership.
- C) Shareholders are responsible for paying off the corporate bonds in the event of a bankruptcy.
- D) All of these choices are correct.

Answer: C

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

49) All of the following are advantages to organizing as a corporation *EXCEPT*

- A) limited liability.
- B) double taxation.
- C) easy access to capital.
- D) easy to transfer ownership.

Answer: B

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

50) Which of the following statements is correct?

- A) Sole proprietorships are easy to start.
- B) If the sole proprietorship gets sued, the owner is not liable.
- C) It is relatively easy for sole proprietorships to raise money.
- D) Profits from the sole proprietorship are subject to double taxation.

Answer: A

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

51) From a taxation perspective, the form of business organization with the highest business level taxes is the

- A) sole proprietorship.
- B) corporation.
- C) partnership.
- D) S corporation.

Answer: B

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

52) From the perspective of access to capital, the best form of business organization is the

- A) sole proprietorship.
- B) corporation.
- C) partnership.
- D) S corporation.

Answer: B

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

53) From the perspective of ownership risk, the best form of business organization is the

- A) sole proprietorship.
- B) corporation.
- C) partnership.
- D) S corporation.

Answer: B

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

54) From the perspective of control, the best form of business organization is the

- A) sole proprietorship.
- B) corporation.
- C) partnership.
- D) S corporation.

Answer: A

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

55) Which of the following statements is incorrect?

- A) Partnerships have unlimited liability.
- B) Most sole proprietors raise money by borrowing from banks.
- C) An advantage of sole proprietorships is that the owner has complete control.
- D) S corporations are considered a hybrid organization.

Answer: B

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

56) Which organization(s) is/are characterized by single taxation and limited liability to all owners?

- A) S corporations.
- B) Limited liability partnerships (LLPs).
- C) Limited liability companies (LLCs).
- D) All of the above.

Answer: D

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

57) Which statement is incorrect regarding hybrid organizations?

- A) They offer single taxation.
- B) They offer limited risk to the owners.
- C) They offer the same type of control as a sole proprietorship.
- D) All of these choices are correct.

Answer: C

Difficulty: 1 Easy

Topic: Forms of business organization

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

58) Agency problems exist in which forms of business ownership?

- A) sole proprietorship
- B) S corporation
- C) partnership
- D) corporation

Answer: D

Difficulty: 1 Easy

Topic: Agency costs and problems

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

59) Methods to minimize agency problem include all *EXCEPT*

- A) offer the managers an equity stake in the firm.
- B) award the CEO stock options.
- C) allow the CEO to purchase stock via an employee stock option plan.
- D) allow the CEO to purchase bonds via an employee bond option plan.

Answer: D

Difficulty: 1 Easy

Topic: Agency costs and problems

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

60) All of the following are an example of a fiduciary relationship *EXCEPT*

- A) a bank employee manages deposits.
- B) a financial advisor advises her clients.
- C) a CEO manages the firm.
- D) the shareholder elects a board member.

Answer: D

Difficulty: 1 Easy

Topic: Agency costs and problems

Bloom's: Remember; Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-07 Discuss how ethical decision making is part of the study of financial management.

61) Restricted stock is

- A) a special type of stock that is not transferable from the current holder to others until specific conditions are satisfied.
- B) a special type of stock that can be converted into corporate bonds after a specific amount of time has elapsed.
- C) a special type of stock that is a result of offering an employee stock ownership plan.

Answer: A

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-07 Discuss how ethical decision making is part of the study of financial management.

62) The board of directors

- A) are hired by the CEO.
- B) are elected by shareholders.
- C) have unlimited liability since they oversee the day-to-day operations of the firm.
- D) are employed by the Securities Exchange Commission to ensure its rules and regulations have been met.

Answer: B

Difficulty: 1 Easy

Topic: Management organization and roles

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

63) Which of these does *NOT* act as a monitor of how the firm is being run outside the firm?

- A) auditors
- B) analysts
- C) credit rating agencies
- D) members of the board of directors

Answer: D

Difficulty: 1 Easy

Topic: Ethics, governance, and regulation

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

- 64) An angel investor differs from a venture capitalist because of the
- A) type of investment.
  - B) investment time frame.
  - C) size of investment.
  - D) voting rights.

Answer: C

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-04 Examine the three most common business organizational forms in the United States today.

- 65) Corporate stakeholders include all of the following *EXCEPT*
- A) employees.
  - B) shareholders.
  - C) suppliers.
  - D) auditors.

Answer: D

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-05 Distinguish among appropriate and inappropriate goals for financial managers.

- 66) What is the difference in perspective between finance and accounting?
- A) timing
  - B) risk
  - C) liability
  - D) ownership

Answer: A

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-02 Show how finance is at the heart of sound business decisions.



67) Which of the following statements is correct?

- A) Accountants are focused on what happened in the past.
- B) Financial managers are focused on what happened in the past.
- C) Both accountants and financial managers use total quality management systems to standardize data.
- D) Financial managers double-check the accountant's statements.

Answer: A

Difficulty: 1 Easy

Topic: Introduction to corporate finance

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-02 Show how finance is at the heart of sound business decisions.

68) Which of these is the system of incentives and monitors that tries to overcome the agency problem?

- A) Security Exchange Commission
- B) Checks and Balances
- C) Board of Directors
- D) Corporate Governance

Answer: D

Difficulty: 1 Easy

Topic: Agency costs and problems

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-06 Identify a firm's primary agency relationship and discuss the possible conflicts that may arise.

69) The treasurer is typically responsible for:

- A) Managing cash and credit.
- B) Issuing and repurchasing financial securities such as stocks and bonds.
- C) Hedging against changes in foreign exchange and interest rates.
- D) All of the above.

Answer: D

Difficulty: 1 Easy

Topic: Role of Treasurer

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-08 Describe the complex, necessary relationships among firms, financial institutions, and financial markets.

70) Which of the following do not ensure firm viability over the long run?

- A) maximizing employment
- B) market share
- C) profits
- D) all of these choices are correct.

Answer: D

Difficulty: 1 Easy

Topic: Goal of financial management

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-05 Distinguish among appropriate and inappropriate goals for financial managers.

71) Which of these must effectively distribute capital between investors and companies?

- A) individuals
- B) international investors
- C) companies
- D) financial institutions

Answer: D

Difficulty: 1 Easy

Topic: Capital market performance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-01 Define the major areas of finance as they apply to corporate financial management.

72) Which of the following can use financial concepts to improve their decisions?

- A) financial professionals only
- B) financial and nonfinance professionals
- C) day-to-day operations managers only
- D) long-term operations managers only

Answer: B

Difficulty: 1 Easy

Topic: Goal of financial management

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-02 Show how finance is at the heart of sound business decisions.

73) Which of the following will help you make better personal financial decisions?

- A) knowing finance theory
- B) applying financial tools
- C) auditors
- D) knowing finance theory and applying financial tools.

Answer: D

Difficulty: 2 Medium

Topic: Introduction to corporate finance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-03 Learn the financial principles that govern your personal decisions.

74) According to an updated rule by the U.S. Securities Exchange Commission in 2017:

- A) Publicly traded companies are to release a ratio of CEO earnings compared to median pay for workers.
- B) The median ratio of CEO-to-median-worker-salary for the 100 largest companies is to be 235-to-one.
- C) A and B are true.
- D) None of the above are true.

Answer: D

Difficulty: 1 Easy

Topic: Tax Cuts & Jobs Act of 2017

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-09 Understand how the new tax law impacts financial decision making.

75) According to the new Tax Cuts and Jobs Act (TCJA) of 2017, which of the following statements are true?

- A) Changes in tax law can lead to making different financial decisions.
- B) The new law reduces the amount of debt interest that can be deducted.
- C) Companies may wish to use more equity financing and less debt financing.
- D) All of the above.

Answer: D

Difficulty: 1 Easy

Topic: Tax Cuts & Jobs Act of 2017

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Learning Goal: 01-09 Understand how the new tax law impacts financial decision making.